

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

ANNUAL COMPLIANCE REVIEW, 2021

Docket No. ACR2021

**RESPONSES OF THE UNITED STATES POSTAL SERVICE TO
QUESTIONS 1-3 OF CHAIRMAN'S INFORMATION REQUEST NO. 10**

The United States Postal Service hereby provides its responses to the above-listed questions of Chairman's Information Request No. 10, issued on February 2, 2022. Each question is stated verbatim and followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Nabeel R. Cheema.
Chief Counsel, Pricing & Product Support

Eric P. Koetting

475 L'Enfant Plaza, S.W.
Washington, D.C. 20260-1137
(202) 277-6333
eric.p.koetting@usps.gov
February 9, 2022

**RESPONSES OF THE UNITED STATES POSTAL SERVICE
TO CHAIRMAN'S INFORMATION REQUEST NO. 10**

1. Please refer to the following table, which shows the percentage increase in costs per broken bundle and the percentage increase in cost per piece in broken bundle in FY 2021:

Table: FY 2021 Increase in the Estimated Cost Impact¹

Mail Class/Products	Annual Change in Estimated Cost Impact Per Broken Bundle (\$)	Annual Change in Estimated Cost Impact Per Piece in Broken Bundle (\$)
Periodicals	30%	27%
USPS Marketing Mail Flats & Carrier Route	22%	17%

- a. Please confirm that these percentages are correct. If not confirmed, please provide the corrected percentages, identify the data used to calculate these percentages and describe the underlying methodology.
- b. If question 2.a. is confirmed, or percentages provided in question 2.a. show an increase in the estimated cost from FY 2020 to FY 2021, please discuss the factors that may have contributed to the increase in the estimated cost per broken bundle and the estimated cost per piece within a broken bundle.

RESPONSE:

- a. Confirmed, with the exception that the calculated per-piece annual change for Marketing Mail Flats and Carrier Route appears to be 18 percent (17.797 percent) when rounded to the nearest percentage value.
- b. Several factors affect the cost estimates presented in USPS-FY21-45 and could have contributed to the increase in costs between FY 2020 and FY 2021.

¹ See Library Reference USPS-FY21-45, December 29, 2021, Excel file "CH 6 Data and Tables FY21. PRC.LR.9 Update.xlsx," tab "Table 5-Bundle Cost Impact," cells F4:G5; Docket No. ACR2020, Responses of the United States Postal Service to Questions 1-15 of Chairman's Information Request No. 13, February 16, 2021, question 10, Excel file "Q10 ChIR No. 13.xlsx," tab "Impact," cells E4:F5 (Docket No. ACR2020 Response to CHIR No. 13).

**RESPONSES OF THE UNITED STATES POSTAL SERVICE
TO CHAIRMAN'S INFORMATION REQUEST NO. 10**

The broken bundle percentages increased in FY 2021, as shown in Table 1 below. Higher breakage percentages would result in higher cost estimates, all else equal.

**Table 1:
Broken Bundle Percentages**

Product	FY 2020 Broken Bundle Percentage	FY 2021 Broken Bundle Percentage	Percent Increase
Periodicals Outside County	4.220%	4.519%	7.087%
Marketing Mail Flats and Carrier Route	6.427%	7.121%	10.797%

The pieces-per-bundle values also increased in FY 2021, as shown in Table 2 below. Higher pieces-per-bundle values would result in higher cost estimates if the bundles were to break, all else equal.

**Table 2:
Pieces Per Bundle**

Product	FY 2020 Pieces Per Bundle	FY 2021 Pieces Per Bundle	Percent Increase
Periodicals Outside County	16.928	17.395	2.763%
Marketing Mail Flats	26.006	26.095	0.342%
Marketing Mail Carrier Route	23.525	23.959	1.844%

The USPS-FY21-11 cost models are used to develop the USPS-FY21-45 data. These cost models contain mail processing unit cost by shape estimates for Periodicals, Marketing Mail Flats, and Marketing Mail Carrier Route. In FY 2021, the mail processing unit cost by shape estimates for these products all increased, as shown in Table 3 below.

**RESPONSES OF THE UNITED STATES POSTAL SERVICE
TO CHAIRMAN'S INFORMATION REQUEST NO. 10**

**Table 3:
Mail Processing Unit Cost By Shape Estimates**

Product	FY 2020 Mail Processing Unit Cost (Cents)	FY 2021 Mail Processing Unit Cost (Cents)	Percent Increase
Periodicals Outside County	21.615	23.078	6.765%
Marketing Mail Flats	38.001	40.053	5.401%
Marketing Mail Carrier Route	7.534	7.920	5.123%

In corresponding fashion, the CRA proportional adjustment factors increased, as shown in Table 4 below. The CRA proportional adjustment factors affect these cost estimates, as described in the response to the Commission's Request for Status Reports (July 15, 2020).

**Table 4:
CRA Proportional Adjustment Factors**

Product	FY 2020 CRA Proportional Adjustment Factor	FY 2021 CRA Proportional Adjustment Factor	Percent Increase
Periodicals Outside County	1.221	1.419	16.240%
Marketing Mail Flats	1.571	1.584	0.803%
Marketing Mail Carrier Route	0.737	0.807	9.518%

Finally, the mail processing cost models contain many different types of input data which also could have contributed to an increase in costs between FY 2020 and FY 2021. For example, the productivity values for many flats bundle sorting and piece distribution operations decreased in FY 2021, as shown in USPS-FY21-45. Productivity decreases would result in higher costs, all else equal.

An Excel file with the various tables is electronically attached to this response.

**RESPONSES OF THE UNITED STATES POSTAL SERVICE
TO CHAIRMAN'S INFORMATION REQUEST NO. 10**

2. Please refer to the attached Excel file, "Attachment 1.xlsx," which compares mail processing costs for FY 2020 and FY 2021.
- a. Please confirm that the unit mail processing costs for USPS Marketing Mail Parcels rose by 26 percent in FY 2021.
 - b. If confirmed, please explain the significant factors that contributed to the 26 percent rise in unit mail processing costs.
 - c. If not confirmed, please explain.

RESPONSE:

- a. Confirmed.
- b. The change in unit mail processing costs was not statistically significant at the 95 percent confidence level, therefore sampling variability is likely to be the primary factor contributing to the observed rise in costs. An additional contributing factor is the low measured unit mail processing cost in FY2020. From FY2019 to FY2020, unit mail processing costs decreased by 25 percent. Please note that the coefficients of variation (CVs) for the IOCS-based estimates of costs were 12 percent and 11 percent in FY21 and FY20 respectively, so that these changes in unit costs are not statistically significant at the 95 percent confidence level.² USPS Marketing Mail parcels' sampling CVs reflect the product's relatively small volume (36.2 million pieces in FY2021) and thus small

² IOCS CVs are provided in "IOCS CV Summary FY21 Public.xlsx" in USPS-FY21-37, Docket No. ACR 2021, and the corresponding file in Docket No. ACR 2020. Since the mail processing costs for a given year are based on IOCS samples that are independent of other years, year-over-year differences in costs have higher CVs than the annual cost estimates.

**RESPONSES OF THE UNITED STATES POSTAL SERVICE
TO CHAIRMAN'S INFORMATION REQUEST NO. 10**

share of costs (e.g., 1.4 percent of total USPS Marketing Mail mail processing labor cost).

c. N/A.

**RESPONSES OF THE UNITED STATES POSTAL SERVICE
TO CHAIRMAN'S INFORMATION REQUEST NO. 10**

3. Please see Attachment, filed under seal.

RESPONSE:

Please see the response filed under seal as part of USPS-FY21-NP39.